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C O N F I D E N T I A L SECTION 01 OF 02 LUXEMBOURG 000100

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TREASURY PASS TO JOHN HARRINGTON AND MICHAEL MUNDACA

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [LU](#)
SUBJECT: LUXEMBOURG READY TO SIGN TAX TREATY AMENDMENT

REF: LUXEMBOURG 62

Classified By: A/POL-ECON Chief, Adam Center, for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: Luxembourg's dependency on its financial sector has stirred considerable fear among its leaders over designation as a tax haven. Driven by desires to stay off any list and come into compliance with OECD standards, Treasury Minister Frieden visited Washington on 23 March and met with Treasury officials to discuss updating existing information exchange protocols. Prime Minister Juncker has honed in on the G-20, and the United States in particular, as the targets of his criticism, labeling the G-20 "gray list" "incomprehensible" and singling out certain U.S. states as tax havens. END SUMMARY.

LUXEMBOURG'S FEARS

¶2. (C) The Grand Duchy of Luxembourg relies heavily on the success of its financial sector, which provides a quarter of GDP and 70,000 jobs (27,200 from banking alone). Luxembourg's fears of finding itself placed on a blacklist by the OECD prior to or during the G-20 Summit in London were eased when, like 37 other jurisdictions, Luxembourg found itself instead placed on the OECD's gray list. Luxembourg's anxiety in the weeks leading up to the G-20 was palpable (see refTel). A flurry of back door diplomacy and visits by Treasury Minister Frieden to Paris, Berlin, and Washington followed Luxembourg's 13 March announcement that it would take the necessary steps to come into compliance with OECD standards on banking secrecy. Minister Frieden confided to Ambassador that Prime Minister Juncker tasked him to "do whatever it takes" to stay off any lists.

FRIEDEN'S VISIT TO WASHINGTON

¶3. (C) Minister Frieden visited with Treasury officials in Washington 23 March to discuss what his country could do to remain off any blacklist. While under pressure from Germany and France and pending G-20 or OECD announcement of a blacklist, the GoL exhibited enormous anxiety over its inclusion on a list within Senator Levin's Stop Tax Haven Abuse Act, a version of which last year was sponsored by then-Senator Obama. Frieden's visit with Treasury officials proved positive. Luxembourg agreed to offer a one-issue protocol without asking for any concessions. Negotiations appear to be imminent on an amendment to the Double Taxation Avoidance Agreement (DTAA) to contain agreed-upon relevant information exchange language.

¶4. (C) Despite Frieden's eagerness to conclude an agreement, his boss Prime Minister Juncker has been taking potshots at the U.S. Juncker has repeatedly mentioned states such as Delaware, Wyoming, and Nevada, as well as the U.S. Virgin Islands, as worthy of placement on a blacklist. The comments appear to have received little traction among other world leaders, but have played heavily in local media and have hit major media wires such as the AP and Reuters. In a 2 April press conference, before any G-20 statements were released, Juncker announced Luxembourg's likely placement on a gray list. While initially stating that Luxembourg's inclusion on a gray list was not damaging to Luxembourg's reputation, upon arriving in Prague to chair a meeting of Eurozone finance ministers, Juncker told the press 3 April that Luxembourg's inclusion on an OECD gray list was "incomprehensible." He repeated his criticism of the entire "list" concept, complaining again that certain U.S. states should have been listed. Echoing previous comments from Juncker, Frieden said it was regrettable that the OECD would release such a list without consulting with the named OECD members in advance.

¶5. (U) Local media appear equally indignant. The leading daily, d'Wort, published a highly defensive editorial, in which the editor-in-chief called the idea of lists "a children's game," labeling the G-20 as "hypocritical large countries," and identifying Delaware, Wyoming, and Nevada as the U.S.'s very own tax havens. A second daily ran a front page photo of President Obama pointing his finger (as though

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in an admonishing tone) under the headline: "ON THE GRAY LIST."

COMMENT

¶6. (C) Luxembourg appears ready to sign a DTAA amendment and to do so quickly without asking for much in return. Post learned on 31 March that Frieden's ministry had drafted and intends to forward to Treasury a draft amendment which it believes addresses the issues discussed on 23 March. Post is attempting to obtain an advance copy from the GoL but expects the GoL to transmit the draft directly to Treasury in coming days. Frieden will return to Washington with Prime Minister Juncker in late April for World Bank/IMF Meetings and has indicated a desire to "sign something" at that time. Post believes that Luxembourg has a strong desire to beat its neighbors, such as Switzerland, to the punch in achieving compliance with OECD standards, thereby earning headlines and accolades.

¶7. (C/NF) COMMENT CONT'D: Juncker is posturing to a domestic audience by denouncing certain states within the U.S. He faces elections in June and the average Luxembourger does not grasp (or care to research) that the Prime Minister's calling out of individual U.S. states is little more than a red herring. At the same time, Juncker has vowed to get off the OECD gray list, publicly announcing that negotiations have already begun with Germany and France, yet failing to mention its ongoing conversations with the United States.

KRAFT